MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BME1014 –INTRODUCTORY MICROECONOMICS

(All sections / Groups)

21 OCTOBER 2017
2.30 p.m - 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 2 pages with 4 Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

a). Explain the three (3) fundamental questions in an economy that forces society to make choices. (15 marks)

b). "The availability of substitute goods is one of the determinants for the price elasticity of demand." Elaborate further on the above statement. Explain any other two (2) determinants for price elasticity of demand. (10 marks)

(Total: 25 marks)

QUESTION 2

a). Abu has a bakery shop that makes bread. Abu leases 2 ovens for which he pays $8 per day. He cannot increase the number of ovens he leases without giving the oven company 2 months' notice. Abu can hire as many workers as he wants, at a cost of $20 per day per worker. Abu produces 100 breads per day at a total cost of $400.

i). Based on the information provided, identify anyone possible combination of oven and worker that can be used to produce 100 breads at a cost of $400.
Draw a graph that consists of an isocost curve and isoquant curve. Label all the axes correctly.
(5 marks)

ii). Label the cost minimizing point as "A" in your graph. (1 mark)

iii) Differentiate between a short run production and a long run production for Abu's bakery shop. (5 marks)

b). "The concepts of diminishing returns and diseconomies of scale are closely related." Do you agree with this statement? Explain your answers in detail with the help of a short run average cost curve and a long run average cost curve. (14 marks)

(Total: 25 marks)

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QUESTION 3

a). How would a purely competitive industry adjusts and restore allocative efficiency when there is an increase in the demand for its product? (12.5 marks)

b). Discuss the differences of the demand curve for a (i) pure competition; (ii) monopolistic competition and (iii) monopoly. (12.5 marks)

(Total: 25 marks)

QUESTION 4

a). What are oligopoly industries and what strategies do they use to compete in the market? Give an example of the strategy. (15 marks)

b). Define monopoly and discuss any two (2) examples of barrier of entry in a monopoly market. (10 marks)

(Total: 25 marks)

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